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PSE.com

August 27, 2012

Greg Nothstein  
Washington Department of Commerce  
1011 Plum Street SE  
PO Box 42525  
Olympia, WA 98504-2525

**RE: Additional Comments on Washington State Emission Performance Standard and the Department's Reliability and Cost Analysis**

Dear Mr. Nothstein,

Puget Sound Energy (PSE) appreciates the opportunity to provide input and comment on the Department of Commerce's (DOC) draft document entitled "Reliability and Cost Analysis: Supporting the Washington emissions performance standard for baseload electric generation." PSE received the updated draft on August 14, 2012. This draft does not appear to address the comments PSE provided August 2<sup>nd</sup>. Attached is a copy of those comments and we urge the Department to consider them, as well as, our additional thoughts provided below.

PSE is the largest investor-owned utility in Washington, serving more than 1.1 million electric customers. PSE wholly owns three dual-fuel combustion turbine generation facilities (652 MW), two natural gas combined cycle generation facilities (560 MW), and two natural gas cogeneration facilities (316 MW). PSE also owns a 49.85% interest in the Frederickson Power combined cycle facility (134 MW). In total, PSE owns over 1,662 MW of natural gas combustion capacity. In the past nine years the company has invested over \$2 billion in two gigawatts of generation. This includes the acquisition of four operating, combined cycle natural gas turbines and the construction of three new wind projects, to meet our customers' needs. We have also had the opportunity to survey the market for new generation needs every two years as part of our integrated resource planning and request for proposal process. These experiences provide the company with a well grounded understanding of the current market, the capabilities and needs of the electrical system in the Pacific Northwest, and the financial markets around resource management. As Washington businesses and residents attempt to find economic stability and future growth opportunities it is essential that a change to the EPS, and its subsequent effects on the energy market, do not undermine those goals.

An analysis of cost and reliability of Washington's EPS and its effect on customers of the electric system is a large and significant task. Unfortunately the timeline and resources available to DOC to this point have not provided an adequate analysis to determine the financial and dependability impacts of a change to the EPS. The initial information the Department relied on,

from a 2007 presentation on energy contracts, to make the draft assumptions has been determined by the presentations' authors to be irrelevant to the 2012 analysis. Also, the lack of consultation with the electricity community, the Washington Utilities and Transportation Commission (WUTC), and other knowledge sources on the current market realities, calls into question the foundation of the analysis.

PSE would encourage the Department to review the comments on the initial draft analysis provided by stakeholders to determine further steps necessary prior to producing a final analysis document. PSE can offer the services of our analysis staff to assist in creating the appropriate parameters and modeling questions to define a robust analysis of the energy market and the effects an EPS change would have on customers in Washington State. Specifically, PSE recommends the DOC use modeling and an economic impact assessment to evaluate the impacts that a new standard will have on cost and reliability. The analysis should take in to account market volatility, cost risk to ratepayers, risks associated with weather, and demand-side resource uncertainties. We recommend this process commence via a Workshop that would include Public & Private utilities, the Northwest Power and Conservation Council (NWPCC), the WUTC, and the Bonneville Power Association (BPA) Adequacy Forum. These organizations all have the expertise required to make accurate scenario development, particularly with issues associated with hydropower production, technology costs, regional resource adequacy, and natural gas pricing. PSE is available and would be happy to organize and host the first Workshop.

Additionally we would ask DOC to have a frank and open dialogue with the parties outlined in RCW 80.80.040(11), the Washington Utilities and Transportation Commission, The Bonneville Power Administration, the Department of Ecology, the Energy Facility Site Evaluation Council, various electric utilities who have extensive knowledge in resource management costs and reliability issues. Some of these parties have the necessary resources to perform modeling necessary to determine a probable financial and reliability impact to the people of Washington.

Again, PSE urges the Department of Commerce to maintain the Emission Performance Standard (EPS) at its current 1,100 lbs/MWhr level. Regulation recently enacted by the U.S. EPA requires that all newly constructed power plants be constructed with state-of-the-art efficiency measures. Lowering the Emission Performance Standard for existing units is not warranted under the statute at this time and new units are covered under EPA's new rule. If the standard is lowered as currently being contemplated by the Department, utilities will be prevented from entering into long-term contracts with much of the region's existing natural-gas fired combined-cycle combustion turbine fleet, potentially stranding those resources and encouraging utilities to rely on less efficient peaking resources, more expensive and volatile short-term market purchases, and possibly newly constructed resources that are not otherwise needed to meet projected load requirements. System reliability would be adversely affected and customer costs would rise, contrary to the Legislature's intent, without any clear environmental benefit.

As Commerce moves forward with consideration of the EPS update, and a potential filing of a CR 102, PSE would anticipate seeing the Department's further consultation with all stakeholders and written reply to those comments and concerns raised by those entities. We look forward to continued discussion about the Emission Performance Standard in light of the necessity for continued reliability and cost analysis, consideration of federal regulation additions, and the overall impact a change could have on the wellbeing of Washington citizens.

Please feel free to contact me directly to discuss any of these issues.

Sincerely,

A handwritten signature in black ink, appearing to read 'Keith Faretra', with a long horizontal flourish extending to the right.

Keith Faretra  
Senior Resource Scientist

Attachment